

Message Text

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ACTION EUR-12

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INFO AMEMBASSY PARIS

AMEMBASSY LONDON

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DEPARTMENT PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: EMMINGER ON THE DOLLAR

1. IN AN ARTICLE ORIGINALLY PUBLISHED ON AUGUST 26
BUT JUST NOW GIVEN WIDER CIRCULATION IN THE BUNDES BANK
EXCERPT OF PRESS ARTICLES, BUNDES BANK VICE PRESIDENT
EMMINGER COMMENTS EXTENSIVELY ON THE STRENGTH OF THE
DOLLAR WHICH HE SEES MAINLY DUE TO INTEREST RATE
DIFFERENTIALS AND THE UPTURN IN THE US BUSINESS CYCLE
AHEAD OF THE EUROPEAN ONE. EMMINGER POINTS OUT THAT
THE STRENGTHENING OF THE DOLLAR HAS ADVANTAGE FOR
GERMAN EXPORTERS, THUS FOR EXAMPLE VOLKSWAGEN CAN
PROFITABLY SELL ITS NEW MODELS IN THE US AT ANY RATE
ABOVE \$1 EQUALS DM 2.40 BUT THE "BUG" ONLY AT
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\$1 EQUALS DM 2.60 AND THE SALE OF STEEL PRODUCTS IN

THE US CAN ONLY BE UNDERTAKEN AT A LOSS AT ANY
EXCHANGE RATE LESS FAVORABLE THAN \$1 EQUALS DM 2.40.

2. EMMINGER POINTS OUT THAT THE STRENGTH OF THE DOLLAR VIS-A-VIS THE DM, HOWEVER, ALSO HAS DISADVANTAGES IN TERMS OF HIGHER GERMAN IMPORT PRICES AND CONTINUES: "THE INCREASE IN THE COST OF IMPORTS AND THE RESULTING NEGATIVE EFFECTS ON THE DEVELOPMENT OF PRICES, HOWEVER, SETS LIMITS TO THE RISE (HOEHENFLUG) OF THE DOLLAR WHICH PROVOKES RESISTANCE (GEGENHALTEN) BY CENTRAL BANKS. POSSIBLY THE DOLLAR RATE OF (\$1 EQUALS) DM 2.60 WILL PROVE ITSELF IN THIS REGARD AS SOUND BARRIER ...".

3. EMMINGER CONCLUDES THAT IN THE MEDIUM TERM ONE OF THE TWO MAIN FACTORS WHICH CAUSED THE QUICK RISE OF THE DOLLAR, NAMELY, THE INTEREST RATE DIFFERENTIAL, WILL LOSE IN WEIGHT SINCE THE US PRIME RATE MAY FALL AGAIN. BUT AS LONG AS THE EUROPEAN BUSINESS CYCLE LAGS BEHIND THE US ONE, THE DOLLAR IS LIKELY TO MAINTAIN ITSELF ON ITS PRESENT LEVEL. ACCORDING TO EMMINGER, A STRONG DOLLAR IS TACTICALLY CONVENIENT TO THE US IN VIEW OF THE NEGOTIATIONS THIS FALL WITH THE OPEC COUNTRIES CONCERNING OIL PRICES. HE CONCLUDES: "AT THE MOMENT MUCH IS TO BE SAID IN FAVOR (OF THE PROPOSITION) THAT AT LEAST UNTIL THE END OF THE YEAR THE DOLLAR WILL NOT FALL BACK BELOW THE (\$1 EQUALS) DM 2.50 RATE.

HILLENBRAND

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